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**OFFICE OF FINANCIAL AND INSURANCE SERVICES**  
DEPARTMENT OF CONSUMER & INDUSTRY SERVICES  
DAVID C. HOLLISTER, DIRECTOR

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COMMISSIONER

**DATE:** December 3, 2004

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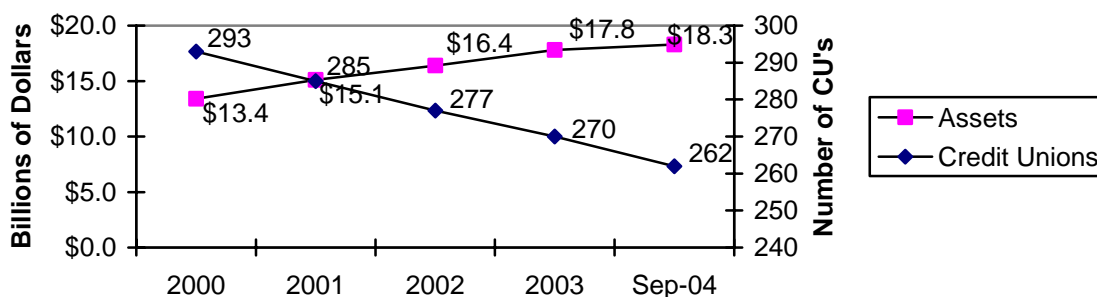
**TO:** The Board of Directors and Management of Michigan State-Chartered Credit Unions

**SUBJECT:** 2004 Third Quarter Financial Results

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the September 30, 2004 call report filings. The following information and analysis does not include CenCorp Credit Union.

**Consolidation Continues**

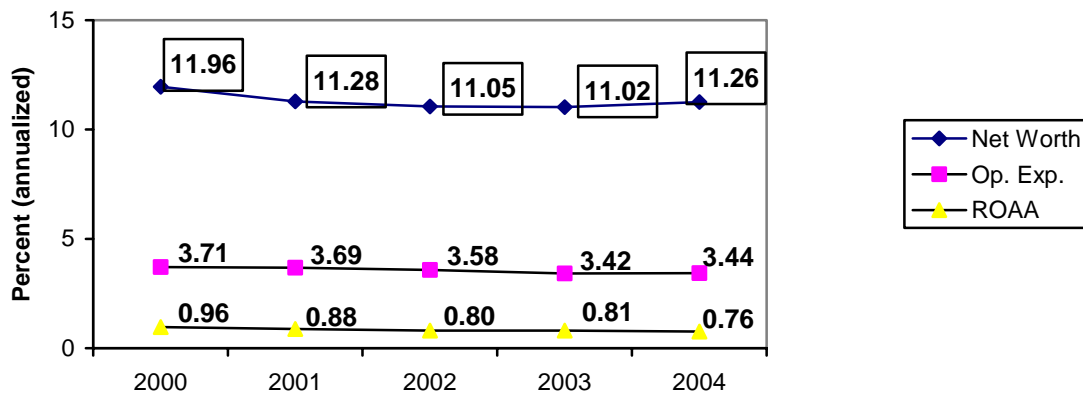
The trend of consolidation continued for Michigan state-chartered credit unions through the first three quarters of 2004. However, asset growth has slowed in 2004 as compared to recent years.



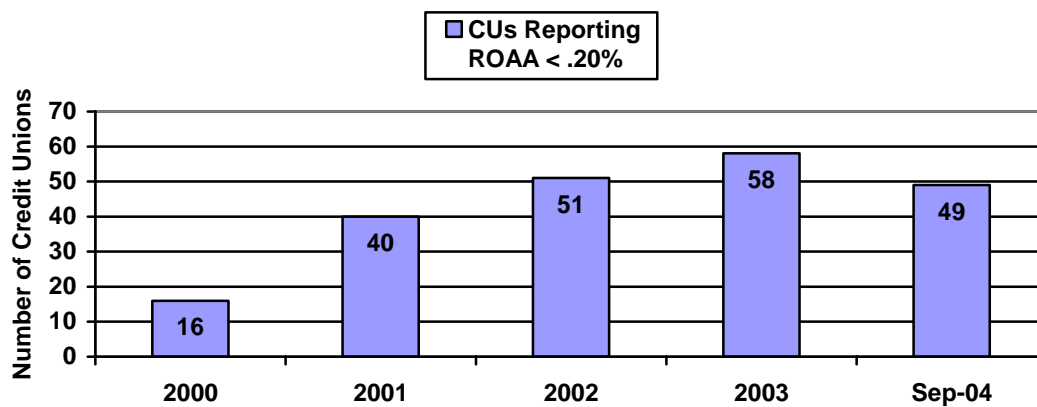
The number of credit unions reporting a decline in assets increased from 10 at year-end 2003 to 28 at September 30, 2004.

### **Net Worth Remains Strong, But Earnings Problems Continue**

Net worth fell to 10.86% at mid-year 2004, but rebounded to 11.29% by the end of the third quarter of 2004. This surge can be attributed in part by the decline in total assets during the third quarter. Operating expense levels remain stable, but Return on Average Assets (ROAA) declined slightly during 2004.



The number of credit unions reporting an ROAA of less than .20% remains high, but has declined during 2004. There are now 49 credit unions reporting an ROAA of less than .20%, down from 58 at year-end 2003.



Interest rate risk management continues to be crucial. Lagging interest rates prolong the possibility of rapid increases in rates. Management is encouraged to continually monitor risk when pursuing optimum performance from loans and investments.

**Asset Quality Remains Sound**

The aggregate delinquency and net charge-off ratios remained stable at 1.02% and 0.51% (respectively) during the year. The number of credit unions reporting adverse trends in these areas continues to decline.

**Conclusion**

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and taking appropriate steps to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management. The information in the September 2004 statistics highlight the continuing need for sound risk management practices.

Sincerely,

Roger W. Little, Deputy Commissioner  
Credit Union Division